भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

Consultation paper on measures to enhance efficiency in polling methodology adopted for spot price determination of commodities

1 Objective

1.1 The objective of this consultation paper is to seek comments / views from the public on measures to further enhance efficiency in the polling methodology adopted for determination of spot price for commodities. The availability of reliable and transparent information about the spot price of any commodity is essential and prerequisite for arriving at the expected futures prices of the commodity.

2 Background

2.1 Generally the futures price of any commodity is estimated by adding up cost of carry/storage costs to the spot price of a particular commodity. Therefore, **the availability of correct and transparent information about the spot price of any commodity is essential for arriving at the expected futures prices of the commodity since**, any divergence in the linkages between the two prices could lead to adverse impact on the price in the two markets i.e. derivatives as well as spot market. Derivatives market can achieve better convergence and integration with the spot markets if there is availability of transparent and reliable spot prices of the underlying commodity. It is essential that effective linkage is maintained between derivative contract prices and underlying spot prices at all times, so that derivative markets can serve as a true reflection of the physical market. In the absence of this linkage, derivatives may not be able to fulfill one of the primary objectives of their existence viz., - price risk management or hedging.

2.2 Generally, final settlement of derivatives contracts take place in one of the following two ways :-

2.2.1 **Physical Settlement**: In case of physical settlement, the holder of the contract will either have to take or give delivery of the commodity and the derivative contract is settled by way of physical delivery of the underlying commodity from seller to buyer.

2.2.2 **Cash Settlement**: In case of cash settlement, instead of physical delivery of the underlying commodity, the difference in value of the underlying commodity in spot market on the expiry date of futures contract (Final Settlement Price (FSP)) and the price at which future contract was traded, is exchanged between buyer and seller.

2.3 In case of Cash settlement, the sanctity of FSP is of utmost importance as net profit to buyer or seller is directly impacted by the value of FSP i.e. higher the value of FSP, higher will be the pay out to buyers and higher shall be the pay in obligation of the sellers and vice versa.

2.4 In case of physical settlement the role of FSP is limited, since for all the open positions at expiry, buyers eventually have to take delivery and sellers have to give delivery of the underlying commodity at the price on which future contract was entered into. However, in case of physically settled contracts also, the FSP assumes importance in case of any default by a contracting party for settling the contract.

2.5 As per the extant policy the preference for settlement for all the derivative contracts is by way of physical delivery. Most of the derivatives contracts in the commodity derivatives exchanges wherein physical delivery happens, the exchange polls the spot prices for dissemination. As majority of the contracts are settled by way of physical delivery, such contracts are not dependent on FSP determined by polled spot prices on the expiry date. However, for the small no. of contracts which are still practically cash settled, FSP determined by polled spot prices bears substantial importance.

2.6 Apart from the perspective of FSP, the **availability of accurate and transparent spot price data is crucial from the perspective of disseminating regular information about the indicative spot prices to clients/market participants (irrespective of cash or physical settlement) facilitating them to take a price view in the derivatives market** based upon the spot prices made available to them by the Exchange. In the absence of such information, the market participants may find it difficult to keep track of the prices in underlying markets at various geographical locations across the country. The information of spot prices on a regular basis also helps Exchange to concurrently analyze the price data to make meaningful analysis of price movement in the futures market which helps in the market surveillance function of the Exchange. The daily dissemination of spot prices by exchanges on the basis of polled spot price, holds the key to the determination of futures price and ultimately convergence of futures & spot markets on expiry of the contract.

2.7 In India, only derivatives contracts are traded on the commodity exchanges while the underlying spot trades, particularly in case of agricultural commodities, occur in opaque and fragmented markets spread across the country, mostly regulated by provincial agricultural marketing laws/acts. Moreover, in the underlying physical markets there exist large variations in quality in different parts of the country and also the commodities do not trade uniformly throughout the year.

2.8 There is no effective mechanism for capturing real time spot price information of commodities traded in different Mandis and other secondary trading centers of the country. The governmental agency which collects and disseminates spot prices for agri-commodities across the country is Agmarknet. It collects the post-trade mandi data, but such information is not disseminated on a real time basis. Moreover, such prices do not relate to any specific quality of the produce on a consistent basis. The data so disseminated indicates the range of prices within which, trades in the commodity have taken place in the market on that day for various qualities. Apart from Agmarknet, there are various private independent agencies/organizations which are also engaged in the process of collection and dissemination of spot prices of different commodities as per their respective methodology of collection of such data. As far as the futures market is concerned, the Commodity Derivatives Exchanges require on any given day, the representative spot price information for the commodity of same quality specifications as stipulated for the futures contracts being traded on their platforms. The Commodity Exchange needs the representative spot price information as prevalent at the 'basis center' of a particular commodity [pre-declared in the contract specifications] being traded on its platform so that the same is disseminated to the stakeholders on a daily basis for taking informed decisions.

3 FMC and SEBI circular on the spot price polling

3.1 The Commodity Derivatives Exchanges have been using a 'Spot Price Polling Mechanism' to arrive at and disseminating the prevailing spot prices to the markets twice/thrice on a given trading day. To arrive at the prevailing spot prices, the exchanges are polling the spot prices from a panel of market participants, who voluntarily serve as polling agents and submit spot prices of the commodity from the basis center on a daily basis. Some exchanges undertake this price polling activity themselves whereas others have outsourced these functions to external data collection agencies.

3.2 Erstwhile FMC, from time to time had prescribed various norms related to "Spot Price Polling Mechanism". SEBI vide its circular dated September 02, 2016 on Spot Price Polling Mechanism consolidated and updated the norms prescribed by erstwhile FMC as under-

"In order to maintain the transparency of spot price polling process and dissemination of spot prices arrived at through spot price polling process, the commodity derivatives exchanges are directed to:

i. Have a well laid down and documented policy for the spot price polling mechanism.

ii. display the spot price polling mechanism adopted for every contract on its website along with following details:

S. No.	*Particulars*	*Details*
1.	*Details of the contract*	
2.	*Mechanism of spot price polling*	
3.	*How spot prices are arrived at*	
4.	*Whether these prices include or exclude taxes and other levies / costs*	
5.	*Whether spot prices polling has been outsourced to any external agency and if so, the details thereof.*	
6.	*Criteria for selection of these polling participants*	
7.	*Any other information that the Exchange may consider*	

iii. disclose, for every contract, following details with respect to individual spot price polling participants on its website:

Participants	*Location*	*Profession*	*Price quoted*	*Time, Date*
A_1				
A_2				

a) *The Exchanges may assign a code such A1, A2, A3…etc. for poling participants of a particular contract and reveal his location and price (s) for the day.*
b) *This information shall be updated on Exchange website every day for every contract traded on the exchange platform.*
c) *The information shall continue to be displayed even after the expiry of the contract for a period of 3 years.*

iv. *Endeavor in increasing the sample size used for fixing the daily spot prices during the last 15 days of the contract.*
v. *Review on a monthly basis the prices polled by the participants to identify participants habitually polling unrealistic prices. These participants could be put under watch and subsequently removed from the panel if such instances reoccur despite appropriate communications.*
vi. *Provide a separate feedback window for receiving complaints in this regard. The exchanges shall address such complaints in a time-bound manner. Further the exchanges shall keep the audit trail of all such complaints received and the steps taken for redressal."*

4 Polling Process Currently Followed by Exchanges

4.1 In terms of the present regulatory framework, to bring in transparency, the exchanges are required to disclose on their websites, the spot price polling mechanism and polled price details for every contract.

4.2 The broad methodology adopted by Exchanges (either directly or through polling agencies) is as detailed below:

4.2.1 The exchanges identify the centers from where the polling would be conducted which is based on the contract specifications. The exchanges also identify the polling participants (submitters) mainly belonging to one of the following professions:

- Traders;
- Brokers/Commission Agents;
- Processors/Millers/Manufacturers;
- Importers/Exporters

4.2.2 Information from a cross section of the above market players (value chain participants) is sought, about the prevailing price of the commodity having specifications as those of the contract traded on the exchange in the market.

4.2.3 Polling for collection of spot prices is done from various centers including all Basis Centers and Additional Delivery Centers spread across the country.

4.2.4 The price for a commodity at a center is polled from a universe of empanelled Polling Participants and the prices are subjected to the statistical process to arrive at the final benchmark price. The entire process is automated and is completed without manual intervention either by the Polling Agency and/or Exchange officials.

4.2.5 Thus, by following the aforesaid process, the spot prices of the underlying commodity so polled are arrived at and disseminated to the market every day.

4.3 Based on the interactions with polling participants and polling agencies during regulatory sub-group meeting of CDAC, the following affirmative observations with respect to the present system being followed by the exchanges has been noted:

4.3.1 They are adequately apprised of the contract specifications by the polling agencies/Exchanges and provide the quote according to the contract specifications.

4.3.2 The Exchange regularly reviews the panel of polling participants with a view to strengthen the process by adding more participants and also removing those which are inactive.

4.3.3 The prices on the derivatives exchange platforms are generally viewed by the farmers as a tool for making informed decisions and also act as benchmark prices for them.

5 Advice received from external experts on improving the spot price polling mechanism

5.1 In order to further improve and impart more transparency to the spot price polling mechanism, SEBI had sought advice from various external experts/forums and the gist of the advices received so far are as under:

5.2 **The International Advisory Board (IAB) of SEBI suggested that**:–

5.2.1 The present price polling mechanism to determine spot prices may need to be suitably reviewed.

5.2.2 There may be some regulation and financial obligations cast upon the agencies carrying out price polling functions as to ensure better accountability.

5.2.3 Some sort of close watch on the physical markets may also be necessary to reduce asymmetry between the polled and the actual spot price.

5.3 A consultant to SEBI, **Oliver Wyman** recommended the following with respect to improvement of polling process:-

5.3.1 Review of spot price determination process adopted by Commodity Derivatives Exchanges as against IOSCO Principles for Financial Benchmarks.

5.3.2 Appoint independent benchmark administrator/calculation agent

5.3.3 Support in implementing remedial actions to bring the spot price determination process in line with the IOSCO Principles.

5.4 **The Sub-Group-II of the Commodity Derivatives Advisory Committee (CDAC)** of SEBI made following observations/queries :-

5.4.1 The spot price polled by the Exchange should match the price quoted at the physical market in the basis center and cartelization by the polling participants needs to be monitored by the Exchanges

5.4.2 Whether any methodology can be devised to arrive at spot price by using statistical methods on the various sources of spot prices like prices arrived by contango-backwardation on the future prices, Mandi Prices and Polled Prices by Exchange.

5.4.3 Whether exchange can define the eligibility criteria for polling participants.

5.5 **The Regulatory sub-group of the Commodity Derivatives Advisory Committee (CDAC)** of SEBI recently made following observations :-

5.5.1 The polling participants may be incentivized for providing the spot prices and the polling agencies/exchanges may enter into legal contract with polling participants for providing the services.

5.5.2 The universe of the polling participants should be increased.

5.5.3 There could be alternate means for collection of the quotes from polling participants (such as through an app) which could supplement the present system.

6 IOSCO Principles for Financial Benchmarks

6.1 Globally, there has been a high degree of regulatory and public focus on financial benchmarks following multiple conduct related issues. In this regard, International Organization of Securities Commissions (IOSCO) published final set of **Principles for Financial Benchmarks** in July 2013.

6.2 The Principles for Financial Benchmarks (the 'Principles') by an IOSCO task force cover the following four main areas -

6.2.1 Governance covering the issues like integrity of the benchmark determination process and conflicts of interest;

6.2.2 Quality of the benchmark covering the issues such as benchmark design, the importance of having robust input data and the transparency of benchmark determinations;

6.2.3 Quality of the methodology encompasses areas such as the calculation methodology of benchmarks, how such methodologies are updated, and the role of submitters; and

6.2.4 Accountability with respect to complaint handling, auditing, and co-operation with regulatory authorities.

The above principles may be accessed at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf.

6.3 It may however be noted that scope of these principles do not cover commodity derivatives market in view of the following statement mentioned in the scope of these principles.

"*The Principles also exclude reference prices or settlement prices produced by Central Counterparties (CCPs), provided that they are produced solely for the purpose of risk management and settlement. The prices of single financial securities (e.g., equity securities underlying stock options or futures) are not considered Benchmarks for the purposes of these Principles.*"

6.4 Nevertheless, in line with the IOSCO principles, various regulators have introduced different measures for financial benchmarks as under-

6.4.1 **United Kingdom**

Historically, benchmarks have not been regulated, however, after the misconduct related to the London Inter-Bank Offered Rate (LIBOR) benchmark coming into light, **Financial Conduct Authority (FCA)** was given powers to regulate benchmarks including London Gold Fixing; LBMA Silver Price and CE Brent Index.

With the **EU Benchmark Regulation (BMR)** coming into effect from January 01, 2018, replacing previous regulatory regime of UK. Under the BMR, the FCA is the competent authority responsible for authorization and registration benchmark administrators, recognition of third country administrators, endorsement of third country benchmarks, enforcement etc…

a) <u>LBMA Gold Price and LBMA Silver Price</u>

- Established in 1919, the London gold fix was the globally recognized price and is used as a reference for contracts across gold industry participants. The fix price (determined in an auction held twice a day, at 10:30AM and 3.00PM) was used as underpin for both physical and financial markets. The historic London Gold Fix was replaced with LBMA Gold Price on March 20, 2015. The LBMA Gold Price and LBMA Silver Price are benchmarks regulated by the FCA and administered by ICE Benchmark Administration (IBA).
- The auction process to determine the spot prices runs on the ICE Trading Platform which provides real-time order management, separation of house and client orders, audit history, compliance monitoring tools.
- The auctions run in rounds of 30 seconds. At the start of each round, IBA publishes a price for that round. Participants then have 30 seconds to enter, change or cancel their orders. At the end of each round order entry is frozen and the system checks to see if the difference between buying and selling (the imbalance) is within the imbalance threshold (normally 10,000 oz. for gold and 500,000 oz. for silver).
- If the imbalance is outside the threshold at the end of a round, then the auction is not balanced, the price is adjusted and a new round starts. If the imbalance is within the threshold then the auction is finished and the price is set. Any imbalance is shared equally between all direct participants (even if they did not place orders or did not log in) and the net volume for each participant trades at the final price.

- The final price is then published as the LBMA Gold Price or LBMA Silver Price in US Dollars and also converted into the benchmarks in other currencies using foreign exchange rates from when the final round ended.
- The prices during the auction are determined by an algorithm that takes into account current market conditions and the activity in the auction. Each auction is actively supervised by IBA staff.
- These auctions have limited participation as LBMA has authorized only seven banks are allowed to participate directly in the Silver auction while fourteen entities in the gold auction.

b) LBMA Platinum and Palladium Prices

- The price is independently administered by the London Metal Exchange (LME) on LMEbullion. The prices are set twice daily at 09:45 and 14:00 (London BST) in US dollars per .9995 fine ounces.
- At present 5 price participants have been accredited to contribute. The participation in the price discovery process is subject to sufficient experience and expertise in relation to the platinum and palladium markets and have received sufficient training in relation to the Auction process. The LME's auctions are controlled so that they only progress if there are sufficient participants present
- LMEbullion delivers fully automated price-display auctions wherein the House traders, client traders and direct clients of participants are shown a potential execution price and asked to indicate their interest. If the interest of all participants is within the permitted tolerance, the price will be confirmed and consequential trade allocations are distributed back to the participants. Once the price has been confirmed, and the trades allocated, the price is disseminated on LME website.

c) London Metal exchange (LME)

The reference prices published by the LME for various metals is derived directly from trading and acts as benchmark prices for the global metals market. Each LME metal is traded in a five-minute Ring sessions with participation limited to selected nine ring-dealing members, which is supposed to be representative of global supply and demand of that base metal.

6.4.2 **<u>Japan</u>-** Japan designated financial benchmark administrators of the Tokyo Interbank Offered Rate (TIBOR) are required to formulate and comply with operational rules, containing items in-line with the IOSCO Principles.

6.4.3 **<u>Hong Kong</u>-** Hong Kong Monetary Authority published a **Code of Conduct for Benchmark Submitters** - intended to be of generic application to all authorized institutions (banks, restricted license banks or deposit-taking companies) that submit rates for benchmark fixings.

6.4.4 **<u>Australia</u>-** Administrators of significant benchmarks are required to hold a 'benchmark administrator' license and comply with enforceable rules made by the Australian Securities and Investments Commission (ASIC). The manipulation of any financial benchmark, or product used to determine such a benchmark, is a specific offence and subject to civil and criminal penalties.

6.5 From the above, it can be seen that the aforesaid IOSCO benchmarks have been adopted mainly for the specified financial benchmarks. On the other hand for commodities, for precious metals and other base metals, the agencies are trusting on the traded prices in the spot market on their platforms whether it's IBA/LME for LBMA or LME to arrive at the spot prices of the respective metal.

7 IOSCO Principles for Price Reporting Agencies

7.1 Price Reporting Agencies (PRAs) are publishers and information providers who report prices transacted in physical and some derivatives markets, and give an informed assessment of price levels at distinct points in time. Some PRAs also report news stories relevant to the commodity markets.

7.2 In 2012, IOSCO published its final report on IOSCO Price Reporting Agencies Principles, which set out principles intended to enhance the reliability of oil price assessments that are referenced in derivative contracts subject to regulation by IOSCO members. Although the PRA principles were developed in the context of PRAs and oil derivatives markets, **<u>PRAs were encouraged to implement the principles more generally to any</u>**

commodity derivatives contracts. The above principles may be accessed at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD391.pdf.

7.3 The PRA principles recognize that there is no requirement on any physical market oil participant to submit transaction data to PRAs. Data is submitted to PRAs on a voluntary basis, as any strict regulation of PRAs or requirements that oil market participants who submit data to PRAs also submit all of their transaction data, could potentially result in some oil market participants to decrease or even cease to submit data to PRAs. IOSCO's approach has therefore focused on creating incentives for PRAs to institute processes that IOSCO believes will enhance reliability of assessments that are indicators of the values in the physical oil underlying a derivatives contract. Some of the PRA principles are as under-

7.3.1 Market Data Used in Price Assessments: PRAs to give priority to concluded transactions in making assessments and implement measures intended to ensure that the transaction data submitted and considered in an assessment are bona fide, including measures to minimize selective reporting. These measures are intended to promote the quality and integrity of data and in turn the reliability of assessments.

7.3.2 Assessors: The adoption of guidelines to ensure the qualifications of assessors (employees of PRA responsible for assessments), including their training and experience levels. This principle also addresses continuity and succession planning in respect of assessors. These measures are intended to promote the integrity and consistency of assessment.

7.3.3 Conflicts of Interest: The documentation, implementation and enforcement of measures to avoid conflicts of interest. These measures are intended to insulate assessments from improper influences, such as commercial or personal interests of the PRA or any of its personnel. The measures call for the functional and operational separation of a PRA's assessment business from any other business that may present a conflict of interest. These requirements are intended to protect the integrity of assessments.

7.3.4 External Auditing: An annual independent external auditing of a PRA's compliance with its methodology criteria and the requirements of these principles, which should be published. This is intended to encourage compliance with the principles and provide additional confirmation to market authorities of such compliance.

7.4 It is observed that some of the PRAs like Platts and Argus are also carrying out price assessments of commodities like grains and metals. A brief illustration on the process adopted by these two PRA viz., Platts for grains and Argus for metals, is highlighted as under:

7.4.1 **<u>Platts grain assessments</u>**:

- It accepts information from variety of sources through telephonic, electronic messages etc., and encourages entities to submit any market price such as bids, offers, expressions of interest to trade, confirmed transactions, reported transactional activity heard across the market and indicative values etc., for consideration in its assessment processes.
- All transactional data is factored equally for use in a particular assessment, as long as such transactions are deemed repeatable and within the established specifications for each product.
- It normalizes disparate information from the diverse physical commodity markets back to the standards. Each assessment is a reflection of transactions, bids and offers that fit within established specifications regarding lot size, product dimensions, delivery times and other factors spelled out in the methodology for each product.
- It does not specify a minimum amount of transaction data, or a transaction data threshold, for the publication of its price assessments as physical commodity markets vary in liquidity. However, it applies judgment when determining whether information is suitable for publication, when normalizing data and where to assess the final value of the market.
- When no bid, offer or transaction data exists, it may consider other verifiable data reported and published through the day, including fully and partially confirmed trades, notional trading values and other market information as provided for publication. Under such circumstances, it may also be able to observe direct market activity or the effect of commonly traded commodities on illiquid markets via spread differentials or via shipping economics.
- Platts publishes price assessments for agricultural products such as Wheat and Corn etc.

7.4.2 **<u>Argus price assessments of metals:</u>**

- Argus price assessments are based on information received from a wide cross section of market participants, including producers, consumers and intermediaries. It contacts and accepts market data from all credible market sources including front and back office of market participants and brokers. Argus also receive market data from electronic trading platforms and directly from the back offices of market participants.

- Argus uses the methodological approach deemed to be the most reliable and representative for that market. Argus utilizes various types of market prices including transacted, bids, offers and other market information, to include spread values between grades, locations, timings, and many other data.
- It publish lists of deals in their reports that include price, basis, and volume information.
- In illiquid markets, it assesses the range within which metals could have traded, based on bids and offers, movements of similar or related grades, and extensive polling of market participants. To be included in the price formation process, deals must meet the strict delivery, timing and specification requirements in the methodology, and must be executed at arm's length between a willing buyer and seller. In markets where liquidity is split across several locations, information may be normalized to a single reference hub, for example by making adjustments for transportation costs, where appropriate and in line with market practice.

7.5 Thus, the two large PRAs cited above are observed to be collecting spot price data from a wide cross section of market participants across the globe through various means of communications and after due statistical analysis are reporting the prices to the users. IOSCO's second implementation review of PRA principles in 2015 mentioned that all the four major PRAs including Platts, Argus, ICIS and OPIS were adhering to the guidelines.

8 Challenges with current polling methodology in India :

8.1 Lack of incentive –The universe of the poling participants is limited and the same participants are being called many times in a day especially where same contract is listed on more than one exchange. As a result, many a times these polling agents don't answer the calls from the Exchanges as there is currently no incentive provided to the polling participants to provide the prices and the disclosure is entirely voluntary.

8.2 Lack of accountability- Since there is no legal obligation on part of polling participants to provide fair prices, there is lack of accountability to poll correct prices.

8.3 Price as per perception rather than Execution -The polling process integrates the views of a set of participants on their perception of the prevailing price in the underlying market and including/excluding other costs at a given point of time. The participation of the polling participant in the trade of the specific variety of the underlying commodity is not a pre-requisite. In times of limited liquidity in the physical markets or when the arrivals for specified variety are low, this system permits/requires the polling participant to extrapolate the price for the specified variety based on trade of other varieties. The basis for this extrapolation may vary as per the perception of the polling participant.

8.4 Conflict of Interest - The polling participants are from the value chain of the commodity. They have vested interest in the pricing of the commodity. Hence there may be possibility that their quotes are influenced to an extent by their interest in the trade. A wide universe of polling participants and subjecting the raw quotes to a process of bootstrapping to eliminate the influence of outliers are the checks put in place to counter this problem.

9 Improving transparency and Credibility in polling methodology-Some suggestions :

9.1 The strengthening of the process of dissemination of spot prices of a commodity may strengthen the convergence and integration of spot and future prices of a commodity thereby enhancing efficiency of both spot and derivatives market. This was also highlighted in the report of the expert committee on Integration of Commodity Spot and Derivatives Markets.

9.2 Ideal situation would be for exchanges to capture the real-time traded spot prices of the commodities having quality specifications exactly/similar as stipulated for the futures contracts being traded on their platform. However, such an ideal solution may not be feasible to accomplish on a regular basis because of the uncertainty of arrivals of commodities in the mandis and the limitation involved in obtaining actual traded prices of a specific quality of goods which are being traded on exchange platform. In the interim, the following steps may be considered in order to improve the transparency and credibility in polling methodology-

9.2.1 Making it compulsory for Exchanges to accredit an independent polling agency (or price reporting agencies) for spot price polling who can do the job independently for all the exchanges on a specific commodity. This is necessitated because of the fact that the universe of the poling participants is limited and the same participants are being called many times in a day especially where same contract is listed on more than one exchange or the same participant deals in multiple commodities. As a result, many a times these polling agents don't answer the calls from the Exchanges. The Exchanges can have contractual arrangements with the Independent Polling Agency and issue code of conducts/operating norms under which the agency can poll spot prices for the exchanges from a large cross-section of physical market participants and provide the same to the Exchanges every day as per pre-scheduled timings.

9.2.2 Bringing the independent polling agency conducting polling of spot prices as well as the participants (price submitters) under the regulatory purview of SEBI by registering and supervising them.

9.2.3 Providing incentive to the polling participants for submitting the spot prices and requiring polling agencies/exchanges to enter into a legal contract with the polling participants for obtaining their services. This will put necessary contractual obligations/disclosures norms on the polling participants for submission of spot prices. The scheme of incentives and dis-incentives should be well established in a transparent manner.

9.2.4 The universe of the polling participants should be increased and each polling should have adequate representations from all types of value chain participants.

9.2.5 There should be alternate means for collection of the quotes from polling participants like email, app, specific web-based application, which could supplement the present system of telephonic conversations.

9.2.6 Exchanges may consider increasing the time slot for collection of price from polling participants and also increase the frequency of collection of the prices from the polling participants so that the polling agency can obtain reliable spot prices throughout the day.

9.2.7 There should be uniformity in approach amongst the exchanges on the process of price polling methodology. For example issues as to whether the spot prices so polled should include or exclude taxes & other levies/costs and whether polling should be done only at the basis centers or in combination with additional centers with weightages attached to each centers etc. should be uniformly followed by the exchanges across commodities.

9.2.8 Instead of asking for perception of polling participants about the price of specific grade of a commodity (as per contract specification), exchange/polling agency may poll them on the actual traded prices of the commodity with detail of the quality and grade of those commodities traded by them. After gathering the polled data, exchanges may themselves extrapolate these traded prices as per the quality/grade of the commodity specified in contract specification of the derivatives in an objective manner. This way, distortion in prices quoted by polling participants due to their subjective assumptions on the premium/discount applicable to a specific grade may be weeded out. However this may make the process of gathering data from participants more cumbersome as collection of exact traded price with supporting quality specifications of the goods transacted will be a complex task. Further there will be attendant risk in case the estimates and extrapolations made by the exchange for quality premium/discount, transportation cost from mandi to warehouse etc., turns out to be not correct.

9.2.9 As stated earlier, IOSCO Principles for Financial Benchmark may not apply to the commodity future prices. However, the ISOCO principles for Oil Price Reporting Agencies could be generally applied to any commodity derivatives contract to collect and disseminate spot prices more accurately and efficiently. It may be explored if the Commodity Derivatives Exchanges adopt the IOSCO principles for the Independent Polling Agencies apart from other suggestions made above, for Spot Price determination of the commodities being traded on their platforms.

9.2.10 Any other recommendations for improving transparency and credibility in polling methodology adopted for spot price determination of commodities.

10 Public Comments:

In light of above, public comments/suggestions are invited for improving transparency, credibility and effectiveness in the existing spot price polling methodology. Comments/suggestions may kindly be provided in the format given below:

Name of Entity/Person intermediary/ Organization			
Sr. No.	**Para No. of Paper**	**Suggestions***	**Rational**

* Any other suggestions on the subject, including on issues not covered in this paper, may also be given.

The comments may be sent by email to cdmrd_dmp@sebi.gov.in or alternatively may be sent to following address latest by one month from the date of issue of the consultation paper i.e. **July 27, 2018**.

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